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TRANSMITTAL SLIP		DATE	18 JUN 1986
TO:			
ROOM NO.	BUILDING		
REMARKS:			
EXO/DDA		(HAS SEEN)	18 JUN 1986
ADDA		(HAS SEEN)	18 JUN 1986
DDA		<i>[Signature]</i>	18 JUN 1986
MS/DA		<i>[Signature]</i>	
DDA REGISTRY			
FROM:			
ROOM NO.	BUILDING	EXTENSION	

FORM NO. 1 FEB 68 241

REPLACES FORM 36-8
WHICH MAY BE USED

(47)

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DO/A REGISTRY

FILE 10-7

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

FROM:

William F. Donnelly
Deputy Director for Administration

EXTENSION

NO.

DATE

18 June 1986

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. Executive Registry

2. Executive Director

3. Deputy Director of
Central Intelligence4. Director of Central
Intelligence

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1. The Office of Personnel has taken a comprehensive look at what we do to bring to our attention and advise or otherwise assist employees and retirees who have serious financial difficulties. They have also made recommendations on what we might do to more effectively deal with these problems.

2. There is still more to do and we will continue to seek positive ways to get a firm hand on this matter.

 William F. Donnelly

Attachment

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10-7

ADMINISTRATIVE - INTERNAL USE ONLY

DD/A Registry
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File

last - read; 1x to DRA
Destroy

MEMORANDUM FOR: Deputy Director for Administration

FROM: Robert W. Magee
Director of Personnel

SUBJECT: Employee and Retiree Financial Assistance

REFERENCE: DCI Memo For DDA dtd 9 June 86, subj.: 8 June,
The Washington Post article, "U.S. Security Workers
File for Bankruptcy"

1. This is in response to referent memorandum requesting a comprehensive review of what we do to identify and assist employees and retirees who experience serious financial problems.

2. I have found that there really is no coordinated plan in operation to identify financially troubled employees. Moreover, there is insufficient regularized communication to the employee and retiree informing them where and what types of assistance are available. Our regulations require employees to avoid financial difficulties as a condition of employment, and this is mentioned briefly in the 44 pages of regulatory readings circulated among employees each year. However, the threat of punishment is a very negative motivator in identifying and assisting employees who actually need help. When we do identify such employees, we should take more positive steps to help them avoid financial pitfalls.

3. Following are some of the services currently available to Agency employees with financial problems:

a. Components can arrange emergency salary advances and personnel staffs can refer employees to other providers of assistance;

b. The Credit Union provides signature loans, debt consolidation loans and numerous other financial services;

c. The Employee Assistance Program (EAP) provides consolidated social services in-house, and makes external referrals for employees experiencing a broad range of personal problems;

d. The Public Service Aid Society (PSAS) provides interest-free emergency loans for employees who have exhausted all other options. The Office of Personnel also provides financial counseling and budgeting assistance on an individual basis as part of the program of qualifying for PSAS assistance;

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SUBJECT: Employee and Retiree Financial Assistance

e. The Office of Personnel's Special Activities Staff (SAS), which is charged with the management of "difficult" employee cases, provides financial counseling to such employees. SAS also processes all garnishment and other financially related court orders; and

f. The Office of General Counsel provides legal aid services related to financial matters through a rehired annuitant lawyer.

4. If we accept the premise that individuals in financial difficulty are more vulnerable to either coercion or financial emoluments offered by foreign intelligence organizations, then we have need for considerable improvement in our system. We must take positive action to help our employees and retirees avoid becoming mired in financial problems, we must improve our identification of those who do, and we must provide a coordinated system for assisting individuals to extricate themselves from their difficulties. Specific areas which need improvement follow:

a. Communication - Improvements are needed in communicating services already available. Employees, managers and retirees all should have readily available a handbook that describes these services and clearly explains how to acquire them. While a less comprehensive handbook already exists, it probably does not receive the dissemination it should, nor is it backed up by periodic employee communications reminding individuals of what is available.

b. Professional Counseling - While many services are available none is as comprehensive as we need. A full-time, professional Financial Counselor could serve not only as the main referent for advice on services available, but also could develop a complete program to help employees avoid financial insolvency and help other employees regain it. Another available option to assist employees would be to get them involved in a life support group like Debtors Anonymous that has chapters in the Washington area. It would be possible to initiate an inhouse chapter that deals specifically with problems associated with compulsive, unsecured debt.

c. Identification - We now identify employees in financial difficulties by default (security reinvestigation, employee admission, garnishment orders, etc.). To improve the process we could conduct periodic credit checks on all employees, absorbing the substantial costs as necessary for security reasons. This would require employee authorization in each case and within 60 days of the check. We also could request Credit Union assistance in seeking voluntary authorization by loan applicants to release information to the Agency. Our understanding is that this could be done under Section 3404 of the Right to Financial Privacy Act, which governs the dissemination of information by the Credit Union.

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SUBJECT: Employee and Retiree Financial Assistance

d. Service consolidation - To facilitate access to the various types of assistance available to employees and retirees, we should provide them with a one-step financial counseling service. This service would be publicized on a frequent and periodic basis (through financial workshops, poster campaigns, etc.) with a view toward reducing or, if possible, eliminating the perception of threat associated with disclosing financial problems.

5. I intend to implement procedures to:

- ° improve identification of employees in difficulty;
- ° improve communication of existing services, and;
- ° acquire a professional financial counselor, preferably on a full-time basis.

I also intend to explore the establishment of a centralized financial counseling service.

STAT

for Robert W. Magee

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SUBJECT: Employee and Retiree Financial Assistance

STAT

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Executive Registry
86- 2544



9 June 1986

MEMORANDUM FOR: Deputy Director for Administration
FROM: Director of Central Intelligence
SUBJECT: 8 June Washington Post Article,
"U. S. Security Workers File for
Bankruptcy"

Would you take a comprehensive look at what we do to bring to our attention and advise or otherwise assist employees and retirees who fall into the predicament outlined in this story in yesterday's Post. This has already come up on the Hill in connection with opposing members of the Privacy Act and otherwise. What can practically be done to focus on this and tell retirees in exit interviews what is available as a method of learning about these situations and being in a position to help when possible.


William J. Casey

Attachment:
Article mentioned above

CONFIDENTIAL

Operations Center

The Washington Post, Front Page

8 June 1986

Item No. 1

U.S. Security Workers File for Bankruptcy

Agencies Rarely Learn of Financial Troubles

By Molly Sinclair

and Bob Woodward

Washington Post Staff Writers

A \$33,000-a-year analyst at the National Security Agency has filed for personal bankruptcy three times in his 17 years as a signals intelligence specialist with a top secret clearance, most recently six months ago. Only after his second bankruptcy did NSA learn that he was in financial trouble.

A middle-level intelligence officer at the CIA filed for bankruptcy in 1983. Yet the officer, who handles top secret intelligence, said in a recent interview that he does not believe that anyone at the CIA knows of his bankruptcy.

A review by The Washington Post of 2,536 bankruptcy files in federal court in Baltimore since 1981 turned up 56 cases of U.S. government employees who work in

intelligence or other national security or sensitive military positions.

Awareness of the financial difficulties of persons working in sensitive security areas has been heightened by the case of convicted spy Ronald W. Pelton, who filed for bankruptcy before quitting his job as a middle-level NSA analyst in April 1979. He subsequently began selling secrets to the Soviets, and testimony at his trial indicated that his actions were in response to his debt problems.

The potential susceptibility of people in difficult financial straits poses a dilemma for the government, particularly in a society that prides itself on simultaneously protecting national security and personal freedoms. A credit union, for instance, is barred by law from disclosing bankruptcy information about members, even to inquiring

(Page 1 of 4)

intelligence agencies, unless there is an investigation under way.

Under the federal privacy act of 1978, an employer cannot inquire about a worker's personal finances unless the person is under active investigation or the records have been subpoenaed by a court or grand jury. But some intelligence officials are concerned about government employees who know vital and sensitive secrets and are in financial trouble. "They're sitting ducks for the KGB," said one senior intelligence official in a reference to the Soviet secret intelligence office.

There are no indications whatsoever that any of the people who filed for bankruptcy in the cases examined by The Post are engaged in espionage. In addition to the cases examined in Maryland, about 900 files were reviewed in federal courts in the District and Virginia.

According to the survey of files in Maryland, the District and Virginia, those filing for bankruptcy included: six NSA employees; three Defense Department employees based at Fort Meade, Md., the NSA headquarters; three Navy technicians at Fort Meade; 11 other Defense Department employees; three CIA employees, and one State Department employee.

Some examples are:

- An executive secretary to an assistant secretary of the Navy dealing with highly sensitive information, who filed in March and listed outstanding debts totaling \$61,024.
- A systems analyst at NSA who filed for bankruptcy in 1983 and reported an annual income of nearly \$40,000 the previous year and debts totaling more than \$75,000.
- A U.S. Navy cryptological technician at Fort Meade, who filed for bankruptcy in 1981 listing debts of \$6,100. His clearance—top secret crypto—gave him access to the most sensitive national security materials designed to ensure secure communications within the military and among the highest government officials.
- An analyst at NSA for 25 years who listed debts of \$27,000 when he filed for bankruptcy five years ago, citing "insufficient funds" and business debts. His salary at the time was \$23,400.

The alarm has been sounded within the intelligence community

because of the spy case of Pelton, the former NSA signals intelligence specialist who sold top secret information to the Soviets for \$35,000 after declaring bankruptcy and resigning from a \$24,500-a-year job. U.S. officials have said he divulged details of at least five top secret U.S. intelligence projects.

A review of existing privacy laws and procedures followed by the intelligence agencies demonstrates that if an employee files for bankruptcy it is unlikely his or her agency will find out.

"We've had to cite the privacy act a number of times" to CIA officials who asked financial questions about employees, according to Juri Valdov, the general manager of Northwest Federal Credit Union, which serves thousands of current and retired CIA employees. But, he said, "it's the law and we comply." He added that CIA officials, once informed of the law, always have complied.

Valdov said that his credit union is "low on the scale of all federal credit unions for the number of bankruptcies." Nevertheless, he estimated that Northwest becomes involved in three or four new bankruptcies each year.

Tower Federal Credit Union, which serves an estimated 61,000 members, including those working at NSA and retirees there, has an average of two or three members file for bankruptcy each month, according to manager Robert Byroad.

"There is nothing unique" about the bankruptcies of the Tower members, Byroad said. "They get into a financial bind" like other people and have to file for bankruptcy, he said.

Sources have said that one of the tragedies of the Pelton case was the absence of any warning that Pelton—or anyone like him with knowledge of important U.S. secrets—needed financial help.

Michael G. Rinn, a Baltimore lawyer who handled the 1983 bankruptcy case for the CIA intelligence officer, said that the personal bankruptcy filings by individuals represent only a fraction of the people who are caught in a financial squeeze. For each case actually filed, he said, there are many people in equal or more serious trouble.

"From the security area, I'd rather have someone file bankruptcy," Rinn said. "It keeps the creditors at bay. They can't be bouncing around

putting pressure on someone The most security risks are those that have trouble and don't get help or have a plan" worked out by the bankruptcy court.

Intelligence sources said recently that there is no evidence that the KGB or other hostile intelligence services operating in the United States have active recruitment programs aimed at people with financial problems. Generally speaking, the sources said, the KGB waits for an approach, as in the case of Pelton, who just phoned the Soviet Embassy and then walked in the next day, in January 1980.

Informed of the number of bankruptcies found in a single court last week, a senior intelligence official said, "That illustrates the scope of the potential problem We have hundreds of people in serious debt, but the fact of a bankruptcy is probably a good sign, indicating that [someone] did not sell out. What I'd be more interested in is information on unusual spending patterns, the person who all of a sudden has large sums of money."

Spokesmen for NSA would not comment on procedures for handling employees with financial problems. A Defense Department directive on the Personnel Security Program, which is being updated this year, indicates that bankruptcy itself is not a ground for denying or revoking a security clearance.

The directive says that all decisions about security clearances call for a "common sense" approach and it says that "factors which may be considered in determining whether

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to deny or revoke clearance" include "recent bankruptcy with continuing financial problems."

All NSA employees with top secret clearances are supposed to receive a background investigation update every five years. Credit or bankruptcy problems should surface during interviews with people who know the employees if these procedures are followed.

One former senior intelligence official said that the only way to learn of a bankruptcy between the five-year investigations is if an employee volunteers the information or if it is provided by a coworker. Currently, the official said, there is a significant backlog of employees awaiting five-year reviews.

The official confirmed that the privacy act protects employees from unwarranted intrusion into details of their personal finances. The law creates a serious vulnerability that could be corrected only with legislation, the official said.

Adding to the government's dilemma is the controversy over current counterintelligence efforts to protect the nation's secrets. Counterintelligence normally focuses on operatives of foreign intelligence services, such as the KGB, who are continually trying to penetrate U.S. communications, documents and secret facilities.

It also is the job of counterintelligence to track down U.S. intelligence employees, such as Pelton, who are selling secrets.

A number of members of Congress, including Sen. Malcolm Wallop (R-Wyo.), have been highly critical of U.S. counterintelligence. Last year Wallop said, "This country has virtually zero counterintelligence capability."

Bankruptcy files are public records and are frequently more than an inch thick. Anyone can go to court, examine the files and learn the employer of a person filing for

4.3 MILLION SECURITY CLEARANCES			
VARIOUS CLEARANCE CATEGORIES REPORTED			
BY THE DEPARTMENT OF DEFENSE AS OF MARCH 31, 1985			
LEVEL OF CLEARANCE	DEFENSE DEPT. CIVILIAN & MILITARY	INDUSTRY	RESERVE & NATIONAL GUARD
Top Secret	454,851	128,405	40,094
Secret	2,038,954	971,912	345,541
Confidential	13,105	304,904*	15,051
TOTAL	2,506,940	1,405,221	400,686
Sensitive Compartmented Information	98,715	9,576	

* 300,000 cleared by contractor security officials

bankruptcy. Often the file will give details of their job and intimate details of their indebtedness, from mortgage claims to credit card overcharges to overdue magazine subscriptions.

None of the intelligence employees who filed for bankruptcy are being identified by name in this article.

The NSA signals specialist who filed for bankruptcy three times said in an interview last week at his home in Maryland that NSA learned of his financial troubles in 1984, nine years after his first filing. The agency warned him to "shape up or ship out," the man said, because they recognized he was a security risk.

"If a person is having financial problems, he is vulnerable," he said, citing Pelton as an example. But, he said, unlike Pelton, he would never consider selling secrets to cover his debts, which he said accumulated over the years because "I got credit . . . Coming from a poor family I wanted things I couldn't afford. I lived above my means and I over-extended."

According to his bankruptcy records, the man received a salary increase of nearly \$2,000 shortly

after NSA warned him about his finances. His most recent bankruptcy filing, in February, listed debts totaling \$50,892.

A 29-year-old NSA analyst with a top secret clearance whose salary was \$27,600 in 1984 said she was forced to file for bankruptcy this year after her former husband, also an NSA employee, filed last year. Their creditors tried to collect from her, she said. The woman, who refused to discuss details of her job at NSA, said she once sought a debt consolidation loan from Tower Federal Credit Union, which serves many NSA employees. "They laughed at me," she said. "They said I owed too much money to get a loan."

The woman, who listed debts totaling \$22,474, said she has not informed her employers of her financial difficulties and has no plans to.

"It's none of their business," she said.

The CIA intelligence officer said in an interview last week that he and his wife filed for bankruptcy after taking out a \$15,000 third mortgage on their house from a Maryland credit institution that

charged 30 percent of the loan, or \$4,500, as a fee.

After the settlement, broker's and appraisal fees were paid, he walked away with only \$6,691.50 in cash from the \$15,000 loan, according to records. The intelligence officer said the money was needed for a sensitive family illness and the only way to challenge the high rates was to file for bankruptcy.

His financial situation is now cleared up, he said, and all creditors except the Maryland credit institution were paid 100 percent of what they were owed.

The bankruptcy files provide a complete record about one financial catastrophe after another. Those having current employment normally file what is called Chapter 13 bankruptcy, which allows the payment to creditors in full or in part over a period of up to five years. Under Chapter 13 the person can retain basic personal possessions, but each must be listed for the court.

For example, the CIA officer listed every item of clothing and its estimated value down to his four pairs of shoes, 10 sets of underwear and 12 neckties.

The Pelton case has deeply concerned intelligence officials for a number of reasons: he sold out such vital information for only \$35,000; there was no system in place to warn officials when he was still with NSA and in such deep debt that he filed for bankruptcy; and two of his phone calls to the Soviet Embassy were intercepted by the FBI counterintelligence in January 1980 before he actually walked into the embassy to begin delivering top secret information.

The Director of NSA, Lt. Gen. William E. Odom, addressed employees of the agency on Friday afternoon, according to sources. "He told them that the Pelton matter was over, that it was time to put it behind them," said one source.

Said a second source familiar with Odom's remarks, "When you think of those thousands of [NSA employees] . . . so good and dedicated, even brilliant, you can't know what's going on in their financial lives any more than their personal lives or their minds."

Said a third source, "Talk about vulnerability!"

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

FROM:

 William F. Donnelly
 Deputy Director for Administration

EXTENSION

NO.

DDA 86-1119

DATE

16 JUN 1986

TO: (Officer designation, room number, and building)

DATE

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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The enclosed note
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 per your request.

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